MTS

MAKING CONNECTIONS

99

ANNUAL REPORT

MISSION

To deliver innovative communications solutions and exceptional value to our customers, in Manitoba and beyond.

Corporate Profile *Manitoba Telecom Services Inc. ("MTS") is Manitoba's only full-service provider of local, long distance, wireless, directory, e-commerce and online multimedia telecommunications services. MTS operates a world-class, fibre optics based, digital, province-wide network. Its majority-owned subsidiary, Bell Intrigna Inc. ("Intrigna"), offers leading-edge telecommunications services, including next-generation IP-broadband services, to businesses in Alberta and British Columbia. MTS common shares are listed on The Toronto Stock Exchange under the trading symbol MBT.*

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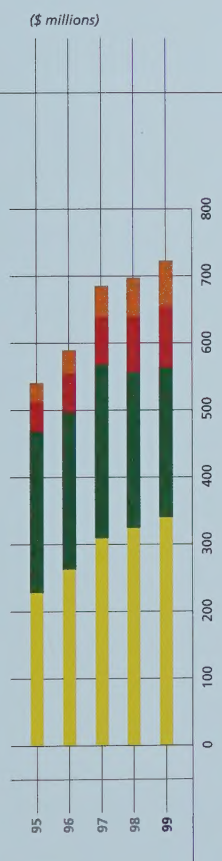
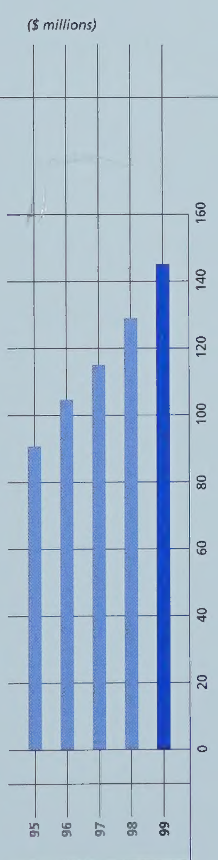
Years Ended December 31	**1999**	1998	% change
Selected operating items ***(in millions)***			
Operating revenues [2]	**$ 722.1**	$ 696.9	3.6
Baseline operating income [1]	**145.1**	129.0	12.5
Baseline EBITDA [1]	**347.3**	325.2	6.8
Baseline net income [1]	**100.3**	91.3	9.9
Net income	**93.9**	95.4	(1.6)
Per share information			
Baseline earnings per share [1]	**$ 1.43**	$ 1.30	10.0
Cash flow from operating activities	**4.52**	4.17	8.4

[1] Baseline results exclude the impact of Intrigna in 1999 and the gain on sale of shares of Alouette Telecommunications Inc. in 1998.
[2] Figures for the year 1998 have been restated to conform with 1999 presentation as described in Note 15 to the Consolidated Financial Statements.

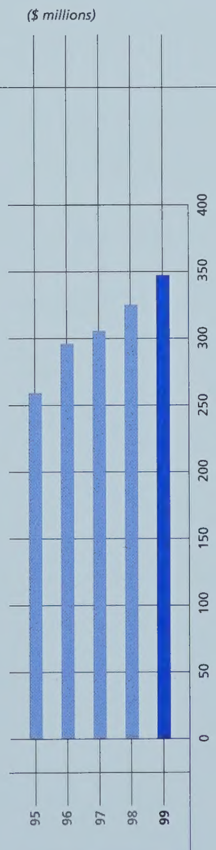


Operating Revenues

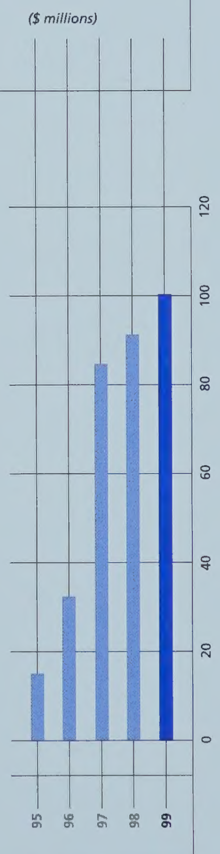
Other
Mobility
LD
Local



Baseline Operating Income

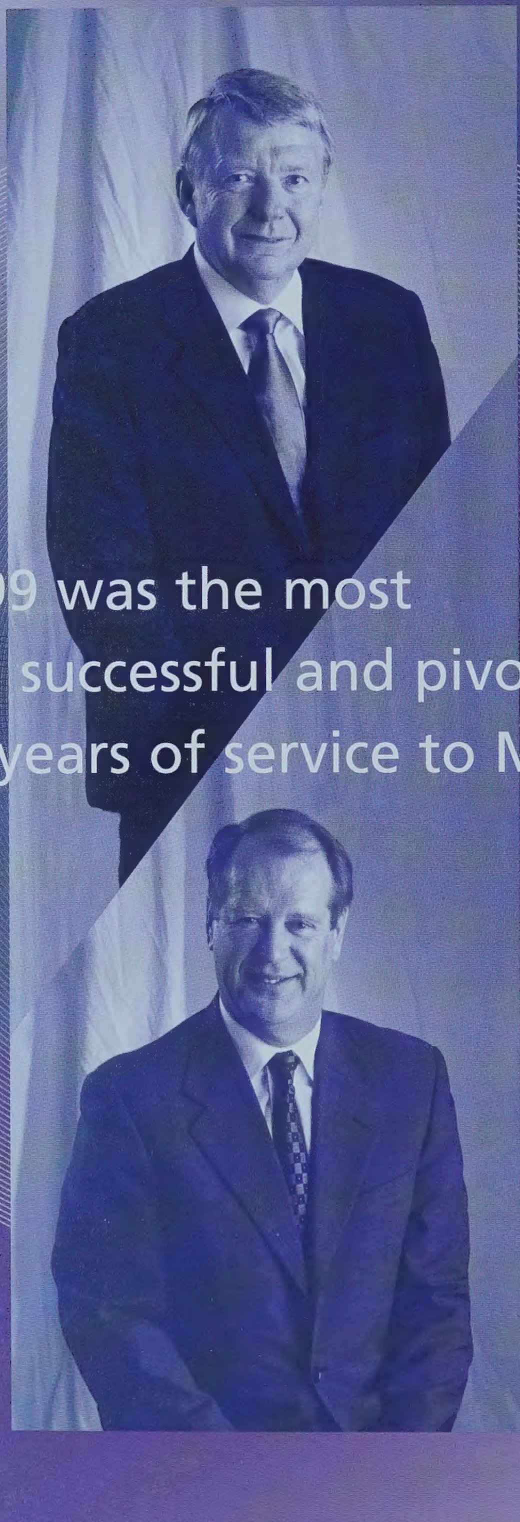


Baseline EBITDA



Baseline Net Income

THOMAS E. STEFANSON
Chairman



TO OUR SHAREHOLDERS

The year 1999 was the most successful and pivotal in 90 years of service to Manitobans

WILLIAM C. FRASER
President and CEO

TO OUR SHAREHOLDERS

1999 was a year of significant achievements for MTS. Among the many, three stand out:

- First and foremost, the successful achievement of our financial objectives for the year.
- Our major alliance with Bell Canada – which significantly increased MTS's competitive strength and leading market position in Manitoba, and fuelled our expansion into the large telecommunications markets in Alberta and British Columbia.
- Our multifaceted support as the lead sponsor of the successful Pan Am Games.

CONNECTED TO PERFORMANCE

Since becoming a publicly traded corporation in 1997, MTS has continually and significantly increased shareholder value through strong financial performance – and we did it again in 1999. MTS's operating revenues in 1999 increased by more than $25 million over the previous year, to a record $722 million. Our earnings per share ("EPS") targets for the year called for 10 per cent growth in the baseline business (which excludes the impact of Intrigna), and for modest growth in consolidated earnings per share from continuing operations, through the start-up phase of Intrigna. We hit our target with baseline EPS growing to $1.43 during 1999. Consolidated net income from continuing operations was $93.9 million or $1.34 per share, compared with $1.30 in 1998. Based on this strong financial performance, in October the MTS Board of Directors approved a 12 per cent increase to the Company's quarterly cash dividend, raising it to 19 cents per share.

MTS'S UNFOLDING STORY CONTINUES TO BE EXCELLENT FINANCIAL PERFORMANCE. OUR REPUTATION AS A SOLID PERFORMER HAS BEEN BUILT ON OUR ABILITY TO RESPOND TO RAPIDLY CHANGING MARKET CONDITIONS.

Our financial success in 1999 reflects the allocation of capital and expense dollars to support strategies aimed at solidifying our market leadership in Manitoba through an increased focus on customer delight, while executing new initiatives such as Intrigna for long-term growth.

CONNECTED TO A FUTURE OF PROFITABLE GROWTH

We are pursuing two fundamental strategies to drive financial performance and long-term growth to continue increasing shareholder value. The first is to focus on and continue to lead the market in our core business. And the second is to leverage our core competencies into similar businesses or business adjacencies with significant growth.

MTS OPERATES IN ONE OF THE MOST DYNAMIC INDUSTRIES IN THE WORLD, AND WE ARE EXPERIENCED AND ADEPT AT BRINGING HIGH-QUALITY TELECOMMUNICATIONS SERVICES TO OUR CUSTOMERS.

In support of these strategies, MTS embarked on a number of undertakings in 1999.

Diversification for Growth

In January 1999, we announced a major strategic alliance with Bell Canada. This alliance both enhances our value proposition by broadening product and service offerings to include Bell Nexxia's next-generation broadband/Internet protocol services for customers in Manitoba, and enables us to grow beyond the province. This growth opportunity is being executed in Alberta and British Columbia by our new majority-owned subsidiary, Intrigna. Since June, the company has made remarkable progress.

Reorganization for One-Stop Shopping

In December 1999, we announced the integration of our two largest operating subsidiaries, MTS Communications Inc. and MTS Mobility Inc. The new structure reflects the continuing evolution of the Canadian telecommunications industry and changes by the Canadian Radio-television and Telecommunications Commission ("CRTC") which, in October 1999, removed the requirement for telecommunications companies like ours to maintain a structural separation between wireline and wireless operations. When the regulatory change occurred, we moved quickly to the new structure, which allows us to further leverage our competitive advantage as the pre-eminent provider of telecommunications services in Manitoba. We now have much greater flexibility to make fundamental improvements that will benefit both our customers and our shareholders, by increasing our operating efficiency and effectiveness, and by augmenting our competitive offerings in the marketplace.

A further 1999 achievement that enhances MTS's competitive strength was the successful completion of two new labour agreements. These agreements will support the Company's ongoing business success by allowing us to use our resources more effectively in serving our customers.

Leveraging New Business Opportunities

In December 1999, we acquired an interest in Momentum Health Information Systems, Inc., a pioneer in the development of software tools tailored for the healthcare market. This arrangement enables MTS to participate in another high-growth industry that complements our own, and to supply network and Internet capabilities for an exciting and growing market.

Data and the Internet are increasingly dominating communications. That is why we are rapidly increasing our scope to include innovative services based on Internet technology. The proof of our performance in this largely untapped market is our 1999 growth in Internet revenues of 53.7 per cent to $14.6 million. MTS has an estimated 65 per cent share of Manitoba's Internet access market, which has been achieved through organic growth and several acquisitions – including recently acquired MBnet Networking Inc.

Also important to our growth strategy in this area were our 1999 achievements in the areas of High-Speed Internet services, electronic commerce, and online multimedia services, such as a new Internet portal, www.myWinnipeg.com. Taken together, these services represent the key components of our comprehensive and evolving Internet strategy.

MTS IS STRATEGICALLY EXPANDING ITS PRODUCT AND SERVICE OFFERINGS WHILE OUR CORE BUSINESSES CONTINUE TO ACHIEVE PERFORMANCE LEVELS THAT RANK MTS AMONG THE TOP PERFORMERS IN OUR INDUSTRY.

CONNECTED TO OUR COMMUNITY

Just as MTS connects its customers to the world, we are also committed to the communities we serve. One of the strongest and highest profile of those connections occurred during last summer's XIII Pan Am Games in Winnipeg. We were proud to be a prime sponsor of this showcase for many of the world's best amateur athletes, and to bring the Games to the world through the provision of telecommunications services. Our participation was also an excellent investment in our brand – keeping MTS top of mind in Manitoba and across Canada, as well.

CONNECTED TO STRENGTH

We look to the future with great confidence based on our competitive strengths. MTS is the pre-eminent service provider in Manitoba, and holds leadership positions in its chosen markets. We are one of the lowest-cost providers in Canada, with a solid balance sheet incorporating a low debt level and strong cash flow. And, through our alliance with Bell Canada, we have the scale and scope to capitalize on growth opportunities in Western Canada.

Our dedicated employees are a vital source of our strength and, on behalf of the Board, we would like to thank them for their effort and commitment in successfully growing MTS.

MTS'S FUTURE IS BRIGHT, WITH EXCELLENT OPPORTUNITIES FOR CONTINUING GROWTH.

MTS is well placed to help its customers make the best of the incredible opportunities in telecommunications, and to drive profitable growth and returns to shareholders. We will build on the progress we made in 1999: a strong market focus; consistent, innovative, leading-edge products and services; and solid financial performance. We will continue to strengthen alliances and partnerships and take the best possible care of our customers. And we are confident of our ability to deliver on this commitment in the future, just as we have done so consistently in the past.

Thomas E. Stefanson
Chairman

William C. Fraser
President and CEO

February 1, 2000

MAKING CONNECTIONS WITH NEW ALLIANCES

ALLIANCES ARE FORMED NEW SERVICES ARE ADDED NEW CONNECTIONS ARE MADE

Many things can happen

MAKING CONNECTIONS OUTSIDE MANITOBA

MAKING CONNECTIONS WITH NEW OPPORTUNITIES

NEW CONNECTIONS ARE MADE ALLIANCES ARE FORMED NEW SERVICES ARE ADDED

in a year...

MAKING CONNECTIONS WITH OUR COMMUNITIES

MAKING CONNECTIONS FOR THE FUTURE

MAKING CONNECTIONS WITH NEW

Alliances

With increasing competition and global consolidations, strong alliances are a must for continued success in the telecommunications industry.

In January 1999, we announced a major alliance with Bell Canada, the nation's largest, most experienced telecommunications company. The alliance has three components; each provides immediate benefits and positions MTS for long-term growth.

First, MTS has a new operating alliance with Bell Nexxia, Bell's national broadband and Internet protocol subsidiary. With exclusive Manitoba distribution rights to Bell Nexxia's products and services, MTS can continue to provide advanced solutions to our business customers. The alliance also makes Bell Nexxia a powerful national partner instead of a potential competitor.

OUR ALLIANCE WITH BELL AND THE CREATION OF INTRIGNA WERE APPLAUDED BY THE MEDIA, TELECOMMUNICATIONS CONSULTANTS AND SECURITIES ANALYSTS ACROSS CANADA. IT'S AN ALLIANCE THAT STRENGTHENS OUR POSITION IN THE MANITOBA MARKETPLACE WHILE GIVING US AN EXCITING GROWTH OPPORTUNITY IN ALBERTA AND BRITISH COLUMBIA. THROUGH INTRIGNA, WE ALSO HAVE BECOME A MAJOR NEW REGIONAL PLAYER ON THE CANADIAN TELECOMMUNICATIONS LANDSCAPE.

Secondly, MTS and Bell created Intrigna, an entrepreneurial company delivering leading communications solutions to businesses in Alberta and British Columbia. Owned two-thirds by MTS and one-third by Bell, Intrigna provides access to a thriving market. Through Intrigna, MTS has been transformed from a provincial telecommunications company into a major western regional player. Intrigna opened its doors in June 1999, and has already attracted a large number of customers in Alberta and British Columbia, in addition to providing access facilities and other products and services to Bell Nexxia's national customers located there.

Finally, Bell Canada acquired a 20 per cent economic interest in MTS – which strengthens our relationship and demonstrates confidence in our capabilities, track record and prospects.

MAKING CONNECTIONS

Outside Manitoba

Through Intrigna, MTS gains access to expansive new markets beyond Manitoba in Alberta and British Columbia. Intrigna gives customers the best of both worlds – the experience and resources of MTS and Bell, and a fresh, entrepreneurial business approach.

Intrigna has attracted highly skilled and motivated individuals to drive achievement of the company's objectives. By the end of 1999, the company had nearly 140 employees and expects to increase this number to 250 by the end of 2000.

In terms of network, the company can boast significant progress. Fibre optic facilities have already been deployed in Calgary and Edmonton, with Vancouver scheduled for completion in April 2000.

Intrigna has also forged a close relationship with broadband and Internet protocol leader Bell Nexxia, which includes co-branding products and services

CANADA'S TELECOM MARKET IS BORDERLESS. SO ARE OUR ASPIRATIONS. WITH THE LAUNCH OF INTRIGNA, WE HAVE A STRONG FOUNDATION FOR GROWTH IN ALBERTA AND BRITISH COLUMBIA BUSINESS TELECOMMUNICATIONS MARKETS WITH TOTAL TELECOM REVENUES OF $2.2 BILLION. INTRIGNA HAS BEEN QUICK OFF THE STARTING LINE, SIGNING UP MORE THAN 140 BUSINESS CUSTOMERS TOWARDS ITS GOAL OF BECOMING A MAJOR SERVICE PROVIDER IN THIS MARKET. ENTREPRENEURIAL AND FLEXIBLE, INTRIGNA'S LONG-TERM POTENTIAL FOR GROWTH IS PROMISING.

under the Bell Intrigna name and strengthening the company's competitive market position. Intrigna also partners with Nortel Networks, a global leader in telephony, data, wireless and wireline Internet solutions, for its infrastructure requirements. Nortel will also provide leading-edge technology to deliver high-speed, next-generation network solutions to Intrigna customers.

Overall, Intrigna's progress to date has been exceptional. In just a few months of operation, the company has largely established its network, won a number of contracts, and delivered fourth quarter 1999 revenues of $2.2 million. Building on this quick start, the company expects to achieve revenues in the $50 million range in 2000, and $200 million by 2002.

Making Connections for The Future

In our traditional markets and in the technologies of tomorrow, MTS is well positioned for continued success in the future.

Revenues from traditional areas of our business – local, long distance and directory services – increased by $6.4 million in 1999. We have maintained a strong leadership position in each of our traditional markets under highly competitive conditions.

The greatest increase in demand, however, came in the newer technologies, including data, wireless, Internet services and e-commerce solutions.

In the Fall, we launched MTS High-Speed Internet service in Winnipeg and Brandon. A quality service together with an aggressive advertising campaign resulted in sales even higher than projected. Significant growth is expected to continue through 2000.

TELECOMMUNICATIONS AND THE FUTURE ARE NEARLY SYNONYMOUS. SUCCESS IN EACH DEMANDS FLEXIBILITY, VISION AND, ABOVE ALL, WORLD-CLASS TECHNOLOGY. MTS IS READY. OUR NETWORK IS DIVERSE AND SOPHISTICATED. OUR PRODUCTS AND SERVICES HARNESS THE POWER, SPEED AND CONNECTIVITY OF THE LATEST TECHNOLOGIES. WITH MTS, CUSTOMERS CHOOSE HOW THEY WANT TO BE CONNECTED TO THE WORLD. WIRED OR WIRELESS, VOICE OR DATA, BUSINESS OR CONSUMER – WE HAVE THE SOLUTIONS AND CHOICE CUSTOMERS DEMAND.

MTS's electronic commerce initiative made significant progress again in 1999, establishing new business relationships with a number of resellers and merchants. With an expanded product portfolio, and marketing plans targeting Canadian and U.S. markets, this line of business is expected to continue to grow.

In August, MTS completed work on a Manitoba-wide network for FleetNet 800™ service, our enhanced, analog/digital radio dispatch service. In 2000, we expect growth in the public safety/emergency response market and new commercial opportunities.

FleetNet 800™ service is a trademark of Saskatchewan Telecommunications, and is used under licence.

MAKING CONNECTIONS WITH New Opportunities

When it comes to opportunities, we choose those with strong potential to deliver long-term growth.

In December, we signed a binding letter of intent to purchase 23 per cent of Momentum Health Information Systems, Inc., a leading developer of software solutions for North American long-term healthcare providers. MTS will supply services for Momentum's planned Internet, Web and e-commerce applications and solutions.

We enhanced our position as Manitoba's leading Internet service provider (ISP) in 1999 through the acquisition of MBnet Networking Inc. and Imaginet Communications Group Inc.

We have also established myWinnipeg.com, a regional Internet portal targeted to Manitobans. Traffic on the site has surpassed expectations; revenues are growing.

OPPORTUNITIES COME IN MANY FORMS. AT MTS, WE FAVOUR INITIATIVES THAT DRIVE LONG-TERM, PROFITABLE GROWTH. WE'VE PUT OUR SKILLS TO WORK IN NEW ENTERPRISES THAT COMPLEMENT OUR STRENGTHS, MOVED OUR COMPANY FORWARD THROUGH ACQUISITIONS, AND ESTABLISHED OURSELVES IN EMERGING MARKETS, INCLUDING THE INTERNET. WITH A STRONG CUSTOMER FOCUS, WE ARE POSITIONED FOR SUCCESS THROUGH THE ONGOING EVOLUTION OF OUR STRUCTURE, PROCESSES AND STRATEGIES.

As clients of myWinnipeg.com's Internet Yellow Pages™ service increase their Web presence, they will have the opportunity to take full advantage of our electronic commerce services.

For customers and shareholders, the integration in December of our two largest operating subsidiaries, MTS Communications Inc. and MTS Mobility Inc., is great news. Made possible when the Canadian Radio-television and Telecommunications Commission removed the requirement to have separate wireline and wireless operations, the new structure increases operating efficiency and – by allowing us to more effectively bundle our products and services to customer needs – brings "one-stop shopping" one step closer to reality.

Yellow Pages™ is a trademark of Bell ActiMedia Inc., and is used under licence.

Making Connections with

Our Communities

From the sponsorship of major sporting events and the arts to answering the call of those in need, MTS has a heartfelt interest in building vibrant communities. Each year through the Employees' Charity Trust, our employees donate more than a quarter million dollars to local charities – funds we are proud to match. We also take pride in the thousands of hours our employees volunteer in support of the community.

Complementing these endeavours are those of the Manitoba chapter of the Telephone Pioneers of America, the world's largest industry-related service organization. With the motto *Answering the Call of Those in Need,* Manitoba's 3,200 Pioneers are a positive force in the community. In 1999, they were honoured with the Premier's Award for Volunteer Service for their efforts to supply television closed

MTS PROUDLY STEPPED FORWARD AS FIRST PARTNER AND EXCLUSIVE TELECOMMUNICATIONS SUPPLIER OF THE XIII PAN AMERICAN GAMES. HELD IN MANITOBA IN THE SUMMER OF 1999, IT WAS THE LARGEST SPORTING EVENT EVER HELD IN CANADA. FEATURING 5,000 ATHLETES FROM 42 NATIONS, THE 1999 GAMES WERE A SPECTACULAR SUCCESS STORY FOR WINNIPEG, FOR MANITOBA AND FOR CANADA. IN ADDITION TO THE TELECOMMUNICATIONS PRODUCTS, SERVICES AND EXPERTISE WE PROVIDED, HUNDREDS OF MTS PIONEERS, EMPLOYEES AND THEIR FAMILIES SHARED IN THE EXPERIENCE AS VOLUNTEERS.

caption decoders to Deaf children and adults – just one of many Pioneer projects during the year.

Lastly, our move to new headquarters in the heart of Winnipeg at Portage and Main comes as welcome news to a city intent on revitalizing its core, and consolidates the majority of our workforce.

This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements. This report includes forward-looking statements about MTS's corporate direction and financial objectives that are subject to risks and uncertainties. As a consequence, actual results in the future may differ materially from those projected or suggested.

OVERVIEW

In 1999, MTS aggressively implemented a new growth strategy, delivered solid financial performance and achieved key operating objectives in its core Manitoba operations.

MTS is Manitoba's pre-eminent full-service telecommunications company – the clear leader in competitive markets such as local, long distance, mobility, Internet and directory services. A key corporate priority is to continually enhance profitability in the home market of Manitoba by competing aggressively to dominate the market in the Company's existing businesses, and by managing costs and allocating resources to higher-growth operations, including mobility and Internet. Both these areas delivered double-digit revenue growth in 1999.

The Company's growth strategy moved forward on the strength of a comprehensive strategic alliance with Bell Canada that became effective January 27, 1999. This alliance features three principal components that were operationalized in 1999:

(i) MTS formed an operating alliance with Bell Canada's national broadband subsidiary, BCE Nexxia Inc. ("Bell Nexxia"). This alliance improves MTS's competitive strength by giving the Company distribution rights to Bell Nexxia's portfolio of next-generation broadband services in Manitoba. Bell Canada has also agreed to provide access to intellectual property, and to certain processes and services to enable MTS to operate more cost effectively.

(ii) MTS and Bell Canada created a new growth-oriented telecommunications company headquartered in Calgary, called Bell Intrigna Inc. ("Intrigna"). Intrigna operates as a competitive local exchange provider in Alberta and British Columbia. Intrigna, which is owned two-thirds by MTS and one-third by Bell Canada, will involve a $270 million investment over four years to establish this business as a formidable competitor in Western Canada.

(iii) Bell Canada acquired a 20% equity interest in MTS through the issuance of common shares and preference shares from the Company's treasury. This involved MTS making a substantial issuer bid in February 1999 to buy back a number of its common shares.

The successful launch of Intrigna was a major achievement and a significant corporate development that positively impacts the outlook for MTS. The opportunities being pursued by Intrigna expand the Company's growth profile and have the potential to increase shareholder returns in the future. Since beginning operations at mid-year in 1999, Intrigna has made remarkable progress, hiring nearly 140 people, deploying $40 million in network infrastructure, and positioning itself for sustained long-term growth in the $2 billion business telecommunications markets in Alberta and British Columbia.

(in millions, except earnings per share)	**1999**	1998	% change
Operating revenues	**$ 722.1**	$ 696.9	3.6
Earnings per share	**$ 1.34**	$ 1.36	(1.5)
Baseline earnings per share (1)	**$ 1.43**	$ 1.30	10.0
Baseline operating income (1)	**$ 145.1**	$ 129.0	12.5
Baseline EBITDA (1) (2)	**$ 347.3**	$ 325.2	6.8
Baseline EBITDA margin (%) (1) (2)	**48.2**	46.7	n/m
Baseline return on average common equity (%) (1)	**13.3**	13.3	0.0

(1) Baseline results exclude the impact of Intrigna in 1999 and the impact of the gain on the sale of shares of Alouette Telecommunications Inc. in 1998.

(2) Earnings before interest, income taxes, depreciation and amortization.

Operating revenues increased by $25.2 million or 3.6% as market share was maintained in traditional operations, while double-digit revenue increases were achieved in growth areas of the business. Consolidated earnings per share from continuing operations was $1.34 in 1999 as compared to $1.30 in 1998, reflecting the impact of Intrigna's first year EBITDA losses in 1999. Including a one-time gain in 1998 on the sale of shares of Alouette Telecommunications Inc., MTS's consolidated earnings per share in 1998 was $1.36.

Baseline results, defined as continuing operations excluding Intrigna, were impressive as baseline earnings per share increased by 10% over 1998 to $1.43. Baseline operating income increased by $16.1 million or 12.5%, resulting from healthy revenue growth of 3.3% and prudent control of operating expenses. The Company's focus on profitability also resulted in baseline EBITDA of $347.3 million, an impressive 6.8% increase compared to the previous year, representing a 48.2% EBITDA margin, one of the best in the Canadian telecommunications industry.

RESULTS OF OPERATIONS

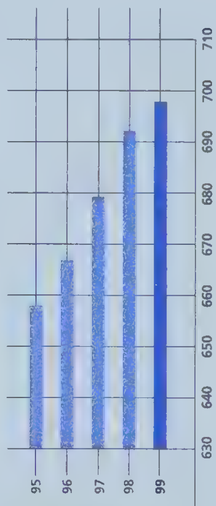
Operating revenues

Operating revenues increased by $25.2 million or 3.6% in 1999. Revenues from traditional businesses showed solid performance. Increases in local service revenues more than offset decreases in long distance revenues. Meanwhile, revenues from higher growth lines of business grew by $18.8 million, or an impressive 18.1%, which reflects excellent performance in the rapidly growing Internet and mobility markets.

Traditional services revenue

(in millions)	1999	1998	% change
Local services	$ 340.5	$ 324.9	4.8
Long distance services	222.0	232.0	(4.3)
Directory services	30.2	29.3	3.1
Miscellaneous	6.5	6.6	(1.5)
	$ 599.2	$ 592.8	1.1
Network access lines	697,828	692,244	0.8
Long distance minutes *(in thousands)*	1,061,457	821,576	29.4

(in thousands)

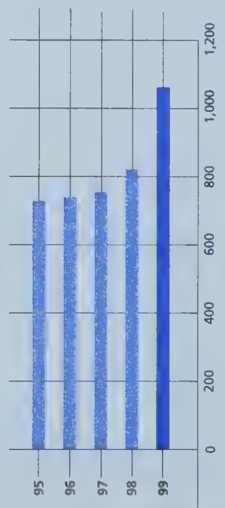


Network access lines

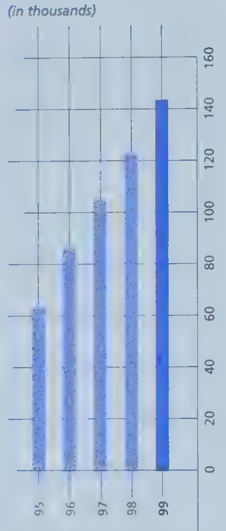
Local service revenues increased by $15.6 million or 4.8% over 1998. This increase is due to higher contribution revenues from growth in long distance minutes, the increased penetration of enhanced calling features and growth in network access lines. The impact of the price cap regulatory formula established by the Canadian Radio-television and Telecommunications Commission ("CRTC") was effectively revenue neutral for MTS in 1999. Under an arrangement that permits the Company to accumulate revenue in a regulatory deferral account for income tax purposes and the cost of implementing local competition, MTS has not yet been required to reduce business rates. This provided additional revenues of $5.8 million in 1999. This regulatory deferral account will be used along with local residential rate increases to offset the costs of implementing local competition and income tax expenses as they are incurred.

Long distance revenues decreased by $10 million or 4.3% in 1999 as a result of lower priced "flat rate" calling plans that were introduced in late 1998, partially offset by the impressive growth in data services. MTS achieved significantly improved stability in its long distance portfolio in 1999, reflecting the Company's continuing market leadership position. Market share was stable at 76%, while quarterly revenues averaged $55.5 million in 1999, with a variance in the revenues generated during each quarter of not more than 0.5% from the average. MTS is pleased with its continued ability to deliver strong financial results from the long distance market segment, which has undergone enormous change and experienced considerable pricing pressures in recent years.

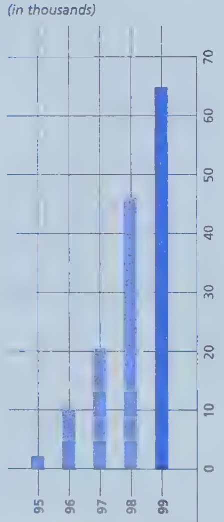
(in millions)



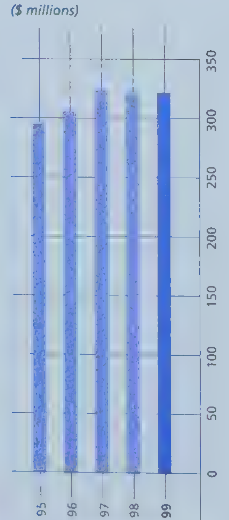
Long distance minutes



Cellular customers



Internet customers



Baseline operations expenses

High-growth services revenue

(in millions)	1999	1998	% change
Mobility services	$ 91.6	$ 81.8	12.0
Internet services	14.6	9.5	53.7
Intrigna communications services	2.2	–	n/a
Miscellaneous	14.5	12.8	13.3
	$ 122.9	$ 104.1	18.1
Cellular customers	143,693	123,013	16.8
Internet customers	64,901	46,131	40.7
Cellular revenue per customer per month	$ 52.79	$ 58.67	(10.0)
Mobility EBITDA *(in millions)*	$ 45.0	$ 40.1	12.2

Mobility revenues increased by $9.8 million or 12% in 1999 because of 16.8% growth in the cellular customer base and increased revenues from FleetNet 800™ services. The growth in revenues associated with the increase in customers was partially offset by a decrease in average revenue per customer per month caused by price reductions for postpaid cellular services and increased popularity of prepaid cellular services. While prepaid service yields a lower revenue per month average, it also has a much lower cost of acquisition and contributes positively to overall growth in profitability.

Internet revenues increased by $5.1 million or 53.7% in 1999, largely due to a 40.7% increase in the customer base achieved through a combination of organic growth and acquisitions. The success of business Internet services and the introduction of high-speed Internet access during 1999, which provides higher revenue per month per customer, also contributed to increased revenues.

MTS also delivered excellent revenue growth in market segments that strategically complement the Company's core services business. These "adjacent" businesses, including home security and telecommunications-related services in the building and maintenance of network infrastructures, produced the bulk of the Company's year-over-year increase in miscellaneous revenues.

Operating expenses

(in millions)	1999	1998	% change
Baseline operations expense	$ 322.3	$ 322.2	0.0
Impact of Intrigna	12.6	–	n/a
Contribution and long distance costs	62.4	60.7	2.8
Depreciation and amortization	190.1	185.0	2.8
Operating expenses	$ 587.4	$ 567.9	3.4
Operations cost/NAL (excluding mobility and Intrigna)	$ 488	$ 493	(1.0)

Operating expenses increased by 3.4% to $587.4 million. The increase was primarily due to expense associated with high-growth initiatives, notably Intrigna. Baseline operations expense, which excludes Intrigna, was essentially unchanged from 1998. This reflects MTS's continued focus on cost management as an important factor in delivering strong financial results. Within baseline operations, cost savings resulting from workforce reductions and business process re-engineering were "re-invested" in higher growth operations including mobility and Internet. As a result, operations expense per NAL, excluding mobility and Intrigna, was among the lowest in Canada. Contribution and long distance costs increased due to higher long distance usage by customers, while the non-cash expenses of depreciation and amortization increased due to higher plant-in-service.

Debt charges

	1999	1998	% change
Debt charges *(in millions)*	$ 29.9	$ 34.1	(12.3)
Average weighted cost of debt at year-end	7.5%	7.6%	

Debt charges decreased by $4.2 million or 12.3% due to reductions in the level of debt during 1999.

Income tax expense

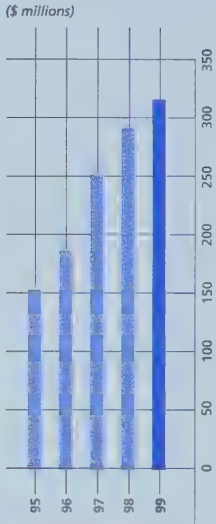
(in millions)	1999	1998	% change
Income tax expense	$ 27.0	$ 14.9	81.2

Income tax expense increased by $12.1 million or 81.2% compared to 1998. MTS has a tax shield arising from past contributions to its pension plan. The applicability of this shield to the taxable income of the Company's subsidiaries varies. The increase in income tax expense in 1999 primarily reflects income tax expense incurred by those subsidiaries for which the tax shield has been fully utilized.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

(in millions)	1999	1998	% change
Cash flows from operating activities	$ 315.8	$ 292.0	8.2
Dividends	$ 48.0	$ 47.6	0.8



Cash flows from operating activities

Cash flows from operating activities increased by $23.8 million or 8.2%, primarily attributable to an increase in depreciation expense and non-cash charges against income, including pension expense and deferred taxes, as well as lower cash costs associated with acquiring cellular customers in 1999. Quarterly dividend payments increased from $0.17 per share to $0.19 per share, effective in the fourth quarter. The dividend payout ratio for 1999 was 51.1%, which is up from 49.9% in 1998.

Investing activities

(in millions)	1999	1998	% change
Cash flows used in investing activities	$ 175.7	$ 175.6	0.1

Cash used for investing activities was basically unchanged from 1998. In support of its growth strategy, MTS continued to concentrate its capital spending and investments on higher growth operations. Capital spending of $40.4 million related to infrastructure in Intrigna's operating territory. By December 31, 1999, approximately 25 kilometres of fibre optic cable had been deployed in Calgary and Edmonton, and 71 buildings were signed for connection to fibre rings, which will provide capacity for 213,000 lines. Capital expenditures in MTS's baseline business decreased from the previous year as certain planned projects, including the further deployment of the wireless 1.9 GHz network, were deferred to 2000 based on estimated market demand for these wireless services. MTS also completed a number of acquisitions in 1999 to further strengthen its business. The acquisitions of MBnet Networking Inc., Imaginet Communications Group Inc., International Security and Fire Inc., and Momentum Health Information Systems, Inc. were completed at a total cost of $6.4 million.

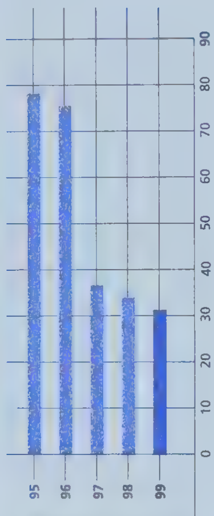
Financing activities

(in millions)	1999	1998	% change
Cash flows used in financing activities	$ 60.3	$ 17.2	250.6

During 1999, MTS reduced its outstanding debt obligation to the Province of Manitoba (the "Province") from $193.3 million to $25.3 million. These repayments were partially funded from internally generated funds of $30.7 million. In addition, the Province's debt position in Advances UFA 13, UFA 24, UFA 25, UFA 26, and UFA 28 were acquired by a third party. As a result, the prepayment provisions of the Debt Conversion and Repayment Agreement between MTS and the Province lapsed in respect of this debt. This continuing debt, in the form of medium term notes, has identical terms and conditions as the original Advances from the Province.

During the year, the Company issued 7,779,556 Class A preference shares and 6,223,644 common shares to Bell Canada, for net cash consideration of $334.5 million. In addition, 32,000 common shares were issued for cash consideration of $0.5 million pursuant to the Company's stock option plan. MTS also purchased 17,057,700 common shares for cancellation, consisting of 14,003,200 common shares pursuant to a substantial issuer bid and 3,054,500 common shares pursuant to a normal course issuer bid, for a total cash cost of $364.6 million.

(percentage)



Long-term debt to total invested capital

As well, Intrigna issued 6,167 common shares to its non-controlling shareholder, Bell Canada, effective December 31, 1999 in exchange for cash consideration of $6.2 million.

Credit ratings

	1999	1998
CBRS-Commercial paper	**A-1**	A-1
CBRS-Senior debentures	**A**	A
DBRS-Commercial paper	**R-1 (low)**	R-1 (low)
DBRS-Senior debentures	**A (low)**	A (low)

MTS maintained strong credit ratings in 1999. In September, the Dominion Bond Rating Service confirmed the Company's credit ratings for commercial paper and senior debentures based on a stable outlook, citing a strong balance sheet, a good franchise area, good profitability, and strong cash flow. In February 2000, the Canadian Bond Rating Service reaffirmed the Company's credit ratings for commercial paper and senior debentures with a stable outlook, citing a strong market position across all product lines, a low cost structure, good growth potential in wireless, Internet and Intrigna, and a strong balance sheet.

Credit facilities

In 1999, MTS established a $350 million medium term note program under a two-year shelf prospectus. At year-end 1999, $60 million of medium term notes had been arranged under this program, leaving a remaining facility of $290 million. In addition, MTS has arranged a credit facility of $25 million with a Canadian chartered bank, and has implemented a commercial paper program authorized to a maximum $100 million. The Company had $152 million in cash reserves on its balance sheet at the end of 1999 and no amounts outstanding against its credit facility or commercial paper program. These credit arrangements, combined with cash reserves and strong operating cash flows, provide access to sufficient capital to meet the Company's working capital and financing needs.

OUTLOOK

MTS anticipates a future of profitable growth and strong continued financial performance as the foundation of its commitment to increasing shareholder value. This positive outlook takes into account the Company's current position as the pre-eminent full-service telecommunications provider in Manitoba, where MTS has maintained market dominance through actions that have been taken in recent years to respond aggressively, and very successfully, to intensifying competition. At the same time, MTS is increasingly focused on pursuing high-potential growth opportunities arising from the evolution and expansion of the telecommunications industry, including the rapid development of markets for next-generation services in areas such as broadband data, mobility, high-speed Internet access and e-commerce.

A key development improving the Company's outlook is the geographic expansion of its market focus into Alberta and British Columbia, which was undertaken in 1999 through the strategic alliance with Bell Canada. The $270 million four year investment in Intrigna is driving the Company's growth strategy into Western Canada. Intrigna positions MTS in a $2 billion business telecommunications services market, which is growing at nearly 6% annually. Intrigna is building on its 1999 successes by launching its operations in the key urban markets of Calgary, Edmonton, and Vancouver. Intrigna has secured a number of major accounts in the business and public sectors. Intrigna's objective is to considerably

deepen its market presence through a value proposition based on strong customer service, price competitiveness, and a portfolio of next-generation services that Intrigna has available through Bell Nexxia. As planned, Intrigna's operating agreement with Bell Nexxia has provided an early revenue stream by enabling Intrigna to provide access facilities and technical and customer care services in Western Canada for Bell Nexxia's national customers. The "smart build" of the Intrigna network continues with an objective of increasing higher-margin revenues that are on-net, which will reduce the Company's reliance on resale bandwidth.

Mobility continues to be a major opportunity for profitable expansion, as evidenced by double-digit growth in customers in 1999, a 12.2% increase in EBITDA for the year, and a churn rate of 1.06% that ranks as one of the lowest in the North American telecommunications industry. Strong future growth in the mobility business is expected, as cellular, PCS, and paging services continue to increase in popularity. The penetration rate in Manitoba at the end of 1999 was 19% as compared to 23% in Canada. This suggests that the Manitoba mobility market, in which MTS has a commanding 68% share, should grow at a faster rate than the Canadian market, which itself is expected to double in the next decade. The Company will also continue its successful efforts to differentiate the mobility portfolio with high value services in areas such as prepaid cellular, wireless data, and group communications through FleetNet 800™ service. The integration of the Company's wireless and wireline business units, which began in 1999 and will be completed in Q2 2000, is expected to open up significant opportunities for increasing margins through improved cost efficiencies in network operations, customer service, and capital expenditures.

Internet revenues will demonstrate strong growth in the future. Through organic growth and acquisition, MTS has established a leadership position – with some 65% share – in the highly competitive Internet markets in Manitoba. The Company's priority is to continue expanding its overall Internet customer base – to grow as the market grows – while evolving the portfolio toward higher-value services. In the next several years, MTS will concentrate on the high-speed Internet access opportunity in consumer and business markets. The Company will exploit the growth expected in business-to-business electronic commerce, leveraging its branded transaction engine. Beyond that, the Company will continue to stay at the forefront in developing and deploying new services in emerging Internet markets, including online portals such as "myWinnipeg.com." The objective is to make "myWinnipeg.com" the dominant regional portal serving Manitobans. While many Internet-related markets have yet to generate substantial revenues, MTS is orienting its business strategies and service offerings to succeed in this important growth area. The Company is committed to strengthening its position as an Internet commerce and value-added online services provider – the leader in Manitoba.

In its high-growth businesses, the keys to success for MTS will continue to be flexibility, speed to market, and innovation. In its traditional telephone business in Manitoba, which includes wireline local, long distance, and directory services, the Company's focus is to dominate the market and continue to improve margins. MTS has been very successful in managing the traditional telephony business through many changes and challenges. This is evident today in high levels of customer loyalty, including a 76% long distance market share at year-end 1999. Opportunities for profitable growth will continue to be pursued in high-potential market segments of our established businesses. A major factor in the Company's success has been its ability to operate as a low-cost telecommunications provider – a leader in Canada. The Company remains committed to cost leadership as a competitive advantage and core competency. In this respect, the alliance with Bell Canada increases the scale of MTS's capabilities for operating profitably in providing customers in Manitoba and throughout Western Canada with existing and next-generation services at very competitive price points.

In 2000, the Company is positioned to reach its primary financial objective for the year of annual growth in earnings per share in the 8% to 10% range for the baseline business. This will be achieved through increases in net income and share buybacks. The baseline

business is defined as continuing operations within MTS, excluding the impact of Intrigna. Revenues from traditional wireline local and long distance services are expected to remain relatively steady in 2000 as compared to 1999. Growth in network access lines, data services, directory services, and enhanced local services is expected to largely offset any reductions in long distance revenues. Mobility and Internet revenues are expected to show impressive year-over-year growth. The Company now projects that Intrigna will deliver revenue in the range of $50 million in 2000, with a target level of $200 million in revenues in 2002, one year ahead of the initial goal of 2003.

With the inclusion of Intrigna's EBITDA losses in the Company's financial results, it is expected that consolidated earnings per share will increase over 1999 levels. Implicit in this financial objective is MTS's commitment to achieving EBITDA levels that compare favourably with other incumbent telecommunications service providers in Canada. MTS intends to reach this objective, even as its effective tax rate almost doubles to approximately 35% toward the end of 2000, which will happen as the tax shield available to various MTS business units is fully depleted. A multi-pronged strategy is being employed to manage the transition to full taxation, including the deployment of cash into investments to generate earnings, share buybacks, and local rate increases for taxes. Future rate increases, which have been approved in principle by the CRTC once taxes are incurred in the utility segment, will assist in maintaining the financial strength that underpins the Company's traditional local services business.

Since becoming a public company in 1997, MTS consistently has delivered solid financial results through a period of major change in the Company and in the industry. MTS has responded successfully to intensifying competition, evolving customer requirements, and a major re-alignment in the Canadian industry through acquisitions and alliances. MTS's significant investment in and commitment to Intrigna broadens the Company's market scope into new growth opportunities and offers excellent potential to increase shareholder returns. Ultimately, in order to grow profitably well into the future, MTS must continue to strengthen its position as the pre-eminent telecommunications company in Manitoba and a resourceful participant in all of the markets in which it competes.

Year 2000 transition

MTS made a smooth and successful transition to the new millennium. After almost four years of preparing the telecommunications network, the information technology infrastructure and business applications, as well as months of planning for the rollover event itself, the December 31, 1999 to January 1, 2000 rollover went according to plan with no significant issues to report. In addition, the February 29, 2000 leap year date was managed without incident. These successes resulted from effective planning and considerable efforts on the part of many dedicated computer and business professionals. While MTS's Year 2000 program is essentially complete, it is not possible yet to conclude that all aspects of the Year 2000 issue, especially relating to third parties, have been fully resolved. MTS will continue to monitor its network to ensure that Year 2000 compliance will continue. From a financial perspective, Year 2000-related costs are being treated in accordance with generally accepted accounting principles, which only allow the capitalization of costs in cases where the service potential of a capital asset is enhanced. Incremental operating costs associated with the Year 2000 plan, which are expensed as they are incurred, were approximately $12 million at the end of 1999. An additional $0.2 million is expected to be incurred in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's planned capital expenditures in 2000 are $220 million and are primarily targeted to support revenue growth and margin improvement opportunities. Capital expenditures for Intrigna are expected to be approximately $75 million. This includes the installation of fibre rings and other networking and customer care infrastructure in Calgary, Edmonton, and Vancouver. Intrigna has an agreement with Nortel Networks – the first of its kind in Canada – to upgrade to next-generation broadband services networking

technology with no incremental cost to Intrigna. This technology is expected to be deployed in the latter part of 2000. In Manitoba, MTS will invest in the expansion of its digital data network and its cellular/PCS network, including the rollout of 1.9 GHz services, to meet growing demand, and satisfy regulatory requirements.

MTS plans to complete the repayment of its outstanding debt obligations to the Province in April 2000, utilizing funds available under the medium term note program. Upon this repayment, the Special Share currently held by the Province will be redeemed for $1. Redemption of the Special Share will result in the Company's shareholders having the opportunity to amend the ownership restrictions that currently limit individual ownership of the Company's voting shares to 10%. This amendment will be on the agenda at the Annual and Special Meeting of shareholders of the Company to be held June 23, 2000.

The Company plans, subject to market conditions, to continue purchasing common shares under its normal course issuer bid. At the end of 1999, the Company had purchased 3 million common shares for cancellation, allowing for a further 2.5 million shares to be purchased for cancellation in 2000 under the normal course issuer bid, which expires in May 2000. The Company expects that internally generated cash will be sufficient not only to fund operating and capital expenditures, dividends, and purchases of shares for cancellation, but to undertake planned investing activities as well.

REGULATORY ENVIRONMENT

The Canadian telecommunications industry is governed by the CRTC, which regulates telecommunications carriers under the authority of the *Telecommunications Act* (Canada). The CRTC has authority over certain aspects of the operations of telecommunications common carriers, including rates, service packages, quality of service, costing and accounting practices. The *Telecommunications Act* (Canada), however, gives the CRTC discretion to forbear from the regulation of rates and service conditions where it determines that there is sufficient competition to protect the interests of consumers.

The CRTC regulates MTS Communications Inc. ("MTS Communications") as a telecommunications common carrier and did exercise regulatory oversight over MTS Mobility Inc. until its amalgamation with MTS Communications as part of the integration of the wireline and wireless businesses. The CRTC retains the authority to regulate the terms and conditions of wireless services provided by MTS Communications but does not require it to file tariffs for these services. Intrigna currently operates in Alberta and British Columbia as a reseller and is required only to register with the CRTC. Intrigna has also applied to operate as a Competitive Local Exchange Carrier ("CLEC"). Once it becomes a CLEC, only its arrangements with other carriers will be regulated by the CRTC. MTS Advanced Inc. is not regulated by the CRTC.

For regulatory purposes, MTS Communications is split into two segments: utility and competitive. The utility segment includes most of the local telephone services offered by MTS Communications. Competitive segment services include long distance, data, terminal, and wireless service offerings. MTS Communications is required to file tariffs for its local services and to demonstrate that its services cover their costs and underlying charges. MTS Communications' long distance, data, terminal, and wireless services are forborne and the rates for these services do not require CRTC approval. Therefore, MTS Communications operates on an equal footing with its competitors in the long distance, data, terminal, and wireless markets.

The CRTC maintains the authority to impose general conditions in respect of forborne services, such as wireless services, and to prevent unjust discrimination and the conferring of undue preferences in relation to such services. However, as a result of *Joint Marketing and Bundling*, Telecom Decision CRTC 98-4 dated March 24, 1998, MTS Communications and its other affiliates are permitted to joint market and bundle their services. This increases

MTS's ability to bring service packages to the market and to package suites of services to individual market segments.

MTS Communications' utility segment has been regulated under a price cap regulatory mechanism since January 1, 1998. Under the price cap regime, utility services are grouped into a number of service baskets. Initial prices for each basket were capped, after which annual price changes are adjusted by an inflation factor and a pre-determined productivity offset of 4.5%, together with any additional exogenous factors. Price cap regulation mandates price reductions only for services that are provided above their costs, such as business access services. Prices for services that are currently below costs, such as certain residential access services, are permitted to rise. Price cap regulation applies only to local utility services and is intended as an interim form of regulation as the market in local telephone services becomes more competitive.

Under an arrangement established by the CRTC, MTS Communications has been permitted to accumulate revenue in a regulatory deferral account for income tax purposes and the cost of implementing local competition. This deferral account is funded using revenues from business services that would otherwise have been reduced through the lowering of business rates under the price cap regime. MTS expects that its tax shield applicable to the utility segment will be fully depleted in the second half of 2000 and income tax will be incurred. Once MTS Communications incurs income tax, the Company anticipates that it will be allowed to increase its local service rates to partially offset this expense. At that time, funds remaining in the deferral account after the recovery of the costs of implementing local competition will be used to mitigate the impact of local rate increases on residential customers.

Effective January 1, 1998, the CRTC opened up the market in local telephone services to competition. *Local Competition*, Telecom Decision CRTC 97-8 dated May 1, 1997 required the telephone companies to unbundle certain essential components of their local service facilities into discrete components that are made available to competitors at tariffed rates. This permits new entrants to provide competitive local services without completely replicating the networks of the incumbent telephone companies. Competitors also are permitted to enter the local market by reselling a telephone company's local services, although the telephone company is not required to discount its local services for resale. As well, in order to facilitate competition in local telephone services, the CRTC also mandated local number portability, which was provided in Winnipeg effective December 31, 1998. The CRTC has allowed MTS to implement local rate increases, effective May 2000, to recover the costs of implementing local network interconnection and local number portability. These rate increases are in addition to the use of the deferral account mentioned above.

MTS Communications, as an incumbent telephone company, retains an obligation to provide service throughout its operating territory. Regulatory proceedings are currently underway to determine the nature and extent of subsidies required to support service in high-cost serving areas where revenues from local service cannot be expected to cover the cost of providing service. The size of subsidy needed to support below-cost local service will be determined within the proceeding to review the price cap regime beginning in late 2000. The manner in which the required local service subsidies will be collected and the areas for which subsidies will be available are being examined in two CRTC proceedings that are scheduled to conclude in the summer of 2000.

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. and the information in the annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgements. Financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls including written policies and procedures, segregation of duties and responsibilities and an internal audit program. This system is designed to provide reasonable assurance that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and the financial records are reliable for preparing the consolidated financial statements. The Company has also instituted policies and guidelines, which require employees to follow high ethical business standards.

The Board of Directors carries out its responsibility for the consolidated financial statements in the annual report principally through its Audit Committee, which is composed entirely of outside directors. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements. The Audit Committee recommends the consolidated financial statements to the Board for approval.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.

William C. Fraser
President & Chief Executive Officer

Cheryl Barker
Executive Vice-President Finance & Chief Financial Officer

AUDIT COMMITTEE REPORT

To the Shareholders
Manitoba Telecom Services Inc.

The Audit Committee, which is composed entirely of outside directors, oversees the financial reporting process on behalf of the Board of Directors. The Audit Committee has met independently with management and the external auditors to discuss the audited financial statements, including the quality of internal controls, accounting principles and significant judgements affecting these audited financial statements. The Audit Committee has also discussed among themselves the information disclosed by management and the external auditors without their presence. The Audit Committee has recommended the consolidated financial statements to the Board for approval.

Donald H. Penny, F.C.A., L.L.D.
Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders
Manitoba Telecom Services Inc.

We have examined the consolidated balance sheets of Manitoba Telecom Services Inc. as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
February 1, 2000

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31 (in thousands)	1999	1998
Operating revenues		
Local services	$ 340,514	$ 324,948
Long distance services	221,976	232,030
Mobility services	91,594	81,755
Directory services	30,200	29,279
Internet services	14,630	9,471
Intrigna communications services	2,242	–
Miscellaneous	20,928	19,449
	722,084	696,932
Operating expenses		
Operations	334,907	322,233
Contribution and long distance costs	62,356	60,736
Depreciation and amortization	190,107	184,953
	587,370	567,922
Operating income	134,714	129,010
Other income	12,326	11,179
Debt charges *(Note 2)*	29,947	34,055
Income before the undernoted	117,093	106,134
Gain on sale of Alouette Telecommunications Inc.	–	4,140
Income before income taxes and non-controlling interest	117,093	110,274
Income taxes *(Note 3)*	27,005	14,900
Income before non-controlling interest	90,088	95,374
Non-controlling interest	3,843	–
Net income	$ 93,931	$ 95,374
Basic earnings per share	$ 1.34	$ 1.36

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31 (in thousands)	1999	1998
Retained earnings, beginning of year	$ 310,585	$ 262,814
Net income	93,931	95,374
Dividends	(47,963)	(47,603)
Purchase of outstanding common shares *(Note 8)*	(243,213)	–
Retained earnings, end of year	$ 113,340	$ 310,585

Years ended December 31 (in thousands)	**1999**	1998
Cash flows from operating activities		
Net income	**$ 93,931**	$ 95,374
Depreciation and amortization	**190,107**	184,953
Cash provided by changes in working capital	**27,210**	22,312
Non-controlling interest	**(3,843)**	–
Other, net	**8,395**	(10,622)
Cash flows from operating activities	**315,800**	292,017
Dividends	**(47,963)**	(47,603)
Cash flows from investing activities		
Capital expenditures, net	**(169,359)**	(166,416)
Proceeds on sale of investment	**–**	11,700
Purchase of investments	**(6,437)**	(20,412)
Other	**144**	(483)
Cash flows used in investing activities	**(175,652)**	(175,611)
Free cash flow	**92,185**	68,803
Cash flows from financing activities		
Issuance of long-term debt	**–**	62,000
Repayment of long-term debt	**(30,727)**	(78,407)
Decrease in premium on long-term debt	**(6,039)**	(1,063)
Issuance of share capital *(Note 8)*	**334,948**	234
Issuance of share capital by subsidiary to non-controlling interest	**6,167**	–
Purchase of outstanding common shares *(Note 8)*	**(364,611)**	–
Cash flows used in financing activities	**(60,262)**	(17,236)
Increase in cash and short-term investments	**31,923**	51,567
Cash and short-term investments, beginning of year	**120,289**	68,722
Cash and short-term investments, end of year	**$ 152,212**	$ 120,289

December 31 (in thousands)	**1999**	1998
ASSETS		
Current assets		
Cash and short-term investments	**$ 152,212**	$ 120,289
Accounts receivable	**88,723**	94,234
Prepaid expenses	**13,056**	13,256
	253,991	227,779
Property, plant and equipment *(Note 4)*	**1,022,615**	1,030,874
Investments *(Note 5)*	**17,591**	14,634
Deferred charges *(Note 6)*	**14,213**	14,834
Goodwill	**12,984**	11,115
	$ 1,321,394	$ 1,299,236
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 176,662**	$ 156,616
Advance billings and payments	**24,045**	22,680
Current portion of long-term debt *(Note 7)*	**25,321**	80,000
	226,028	259,296
Long-term debt *(Note 7)*	**305,749**	287,836
Deferred employee benefits	**45,224**	37,177
Deferred income taxes	**14,945**	4,108
	591,946	588,417
Non-controlling interest	**2,324**	–
Shareholders' equity		
Share capital *(Note 8)*	**613,784**	400,234
Retained earnings	**113,340**	310,585
	727,124	710,819
	$ 1,321,394	$ 1,299,236

Approved on behalf of the Board

Chairman

Director

For the years ended December 31, 1999 and 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Manitoba Telecom Services Inc. (the "Company") operates in the telecommunications industry. The Company's principal subsidiary, MTS Communications Inc. is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC") under the *Telecommunications Act* (Canada). Effective January 1, 1998, a price cap regulatory framework replaced the rate base/rate of return regulatory framework for the utility segment of MTS Communications.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, MTS Communications Inc., MTS Mobility Inc., MTS Advanced Inc., Manitoba Telecom Services International Inc., AAA Alarm Systems Ltd., escape communications corp. and ViewCall Canada, Inc., as well as its majority owned subsidiary, Bell Intrigna Inc. ("Intrigna").

Property, plant and equipment

Property, plant and equipment is recorded at original cost, including materials, direct labour, and certain overhead costs associated with construction activity and an allowance for the cost of funds during construction.

Depreciation is calculated on a straight-line basis over the estimated useful life of property, plant and equipment by applying rates that are based on a continuing program of engineering studies. The composite depreciation rate for the year ended December 31, 1999 was 7.7% (1998 – 7.9%).

Deferred charges

Deferred charges include cellular and PCS activation costs and home security customer installation costs that are amortized over the period of expected benefits, which is normally two years for cellular and PCS, and 10 years for home security customers. Deferred charges also include costs associated with the issuance of long-term debt, which are amortized over the term of the issue.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net assets of subsidiaries at the dates of acquisition and is amortized on a straight-line basis over the estimated periods of benefit ranging from four to 20 years. The carrying value of goodwill is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, the Company's management considers the financial condition of each acquired business unit, as well as its expected pre-tax earnings, cash flows and market-related values. Any impairment in the value of goodwill is written off against earnings in the year the impairment is recognized. Total goodwill amortization charged to operations amounted to $1.1 million in 1999 (1998 – $0.6 million).

Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars at rates of exchange on the following basis:

i. Monetary assets and liabilities at effective rates prevailing at the end of the year; and

ii. Revenues and expenses at rates prevailing at the respective transaction dates.

Financial instruments

The Company's financial assets and liabilities are initially recorded at the related transaction amount, which is normally the historical cost. When the carrying value of a financial asset exceeds its fair value on a basis that is other than temporary, the carrying value is reduced to its fair value.

Income taxes

The Company uses the tax allocation basis of accounting for income taxes. Under this method, the provision for income taxes is based on accounting income included in the statement of income, regardless of when such income is subject to tax.

Pension costs and obligations

The Company has a contributory defined benefit best average pension plan (the "Pension Plan") which covers the employees of Manitoba Telecom Services Inc., MTS Communications Inc., MTS Mobility Inc. and MTS Advanced Inc. The Pension Plan provides pensions based on length of service and best average earnings. Pension costs are determined using the projected benefit method prorated on years of service and based on management's best estimates. Adjustments to pension costs arising from plan amendments, changes in assumptions or experience gains and losses are amortized to income on a straight-line basis over the expected average remaining service life of Pension Plan participants. Market-related values of pension fund assets are calculated using a four-year moving average of year-end market values. The cumulative difference between the amount contributed to the Pension Plan and the amount charged to income is recorded as part of deferred employee benefits.

Post-employment benefits

The Company provides certain group insurance benefits for employees on retirement. The cost of these benefits is determined by an independent actuary and has been included in operations expense. The actuarial value of the accrued post-employment benefits is unfunded and is recorded as part of deferred employee benefits.

2. DEBT CHARGES

(in thousands)	1999	1998
Interest on long-term debt	$ 27,124	$ 31,985
Amortization of long-term debt costs	98	94
Other interest expense and debt charges	2,725	1,976
	$ 29,947	$ 34,055

3. INCOME TAXES

Effective January 7, 1997, upon proclamation of *The Manitoba Telephone System Reorganization and Consequential Amendments Act* (the "Reorganization Act"), the tax basis of certain of the Company's assets was established at an amount that exceeded the recorded carrying values. In addition, the Company had received an advance federal income tax ruling respecting the tax deductibility of the Company's $383 million contribution to the Pension Plan during 1997. The deduction of this contribution, among other items, resulted in a loss for tax purposes in 1997 that can be carried forward to reduce taxable income for the Company and its subsidiaries over a maximum period of seven years.

At December 31, 1999, the Company and its subsidiaries had losses carried forward for tax purposes of $138.5 million (1998 –$248.0 million), as well as timing differences of $16.6 million (1998 – $0.6 million), the benefits of which have not been recognized in these financial statements.

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1999	1998
Combined basic federal and provincial statutory income tax rate	46.1%	46.1%
Realization of benefit of losses and additional tax deductions	(36.7)	(38.8)
Large corporations tax	2.5	2.1
Other items	11.2	4.1
	23.1%	13.5%

Major components of income tax expense are as follows:

(in thousands)	1999	1998
Current income tax	$ 15,138	$ 10,792
Deferred income tax	11,867	4,108
	$ 27,005	$ 14,900

4. PROPERTY, PLANT AND EQUIPMENT

(in thousands)	1999		1998	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Network equipment and outside plant	$ 1,904,011	$ 1,128,170	$ 1,865,079	$ 1,065,303
General equipment and other	321,677	196,316	238,899	120,226
Buildings	142,941	85,474	141,586	79,214
Plant under construction	51,313	–	31,126	–
Materials and supplies	6,108	–	12,484	–
Land	6,525	–	6,443	–
	$ 2,432,575	$ 1,409,960	$ 2,295,617	$ 1,264,743
Net book value	$ 1,022,615		$ 1,030,874	

5. INVESTMENTS

(in thousands)	1999	1998
Long-term investments, at cost	$ 13,101	$ 10,307
Long-term disability fund, at cost	4,490	4,327
	$ 17,591	$ 14,634

The market value of the long-term disability fund at December 31, 1999 totalled $5.3 million (1998 – $5.0 million).

6. DEFERRED CHARGES

(in thousands)	1999	1998
Deferred cellular and PCS activation costs	$ 9,654	$ 11,141
Deferred alarm installation costs	2,030	705
Other	2,529	2,988
	$ 14,213	$ 14,834

Amortization expense amounted to $11.1 million for the year ended December 31, 1999 (1998 – $11.8 million).

7. LONG-TERM DEBT

(in thousands)	1999	1998
Advances and notes payable		
Province of Manitoba Advances		
Advance UFA16, 9.00%, due June 5, 1999	$ –	$ 7,166
Advance UFA17, 7.625%, due September 30, 1999	–	22,023
* Advance UFA12, 9.00%, due January 27, 2002	13,441	14,979
Advance UFA25, 8.75%, due May 15, 2005	–	34,891
Advance UFA28, 8.00%, due April 17, 2006	–	48,106
Advance UFA24, 9.00%, due May 2, 2007	–	14,663
Advance UFA26, 8.50%, due September 29, 2007	–	11,880
Advance UFA13, 9.125%, due April 3, 2008	–	27,699
Advance UFA27, 8.625%, due September 8, 2010	11,880	11,880
	25,321	193,287
Notes payable		
Medium Term Note, 7.75%, due March 1, 2005	9,691	9,691
Medium Term Note, 8.75%, due May 15, 2005	34,891	–
Medium Term Note, 7.75%, due September 30, 2005	15,501	15,501
Medium Term Note, 8.00%, due April 17, 2006	48,106	–
Medium Term Note, 9.00%, due May 2, 2007	14,663	–
Medium Term Note, 6.50%, due July 2, 2007	80,000	80,000
Medium Term Note, 8.50%, due September 29, 2007	11,880	–
Medium Term Note, 9.125%, due April 3, 2008	27,699	–
Medium Term Note, 5.90%, due June 2, 2008	62,000	62,000
	329,752	360,479
Premium on long-term debt	1,318	7,357
Less: Current portion of long-term debt	25,321	80,000
	$ 305,749	$ 287,836

* *Periodic partial repayments*

Pursuant to the terms of a Debt Conversion and Repayment Agreement (the "Repayment Agreement") between the Company and the Province of Manitoba (the "Province"), the Advances are subject to substantially altered repayment terms and due dates. These Advances are secured by a floating charge against the assets of the Company. In the case of Advances with stated due dates subsequent to December 31, 2000, as listed above, the Company has the option to repay these Advances in whole or in part at any time before December 31, 2000.

All Advances must be repaid by December 31, 2000, and any Advances repaid that have a maturity date falling after December 31, 2000 must be repaid at market value at the date of repayment. At the commencement of the Repayment Agreement, the estimated excess of the market values of Advances over the book values at the anticipated time of repayment was assigned to specific Advances, accrued as a liability and charged directly to retained earnings of the Company. In the case of repayment by the Company, any difference between this original estimate and the actual excess of market value over book value would be charged to current operations.

During 1999, the Province's debt position in Advances UFA25, UFA28, UFA24, UFA26 and UFA13 were acquired by third parties. As a result, the prepayment provisions of the Repayment Agreement, in respect of this debt, lapsed. The continuing debt, in the form of Medium Term Notes, has identical terms and conditions as the original Advances from the Province for which they were exchanged.

8. SHARE CAPITAL

Authorized

Unlimited number of Preference Shares
Unlimited number of Common Shares
One Special Share

Preference Shares

The Preference Shares are of two classes, issuable in one or more series, for which the directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. A class of Preference Shares of a single series has been designated as Class A Preference Shares.

The attributes of the Class A Preference Shares are identical in all respects to those of the Common Shares except:

- The Class A Preference Shares are not entitled to receive notice of or attend or vote at meetings of shareholders on resolutions electing directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.
- Dividends on the Class A Preference Shares will be payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Class A Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Class A Preference Share equal to the corresponding amount of dividends per Common Share.
- The Class A Preference Share dividend will increase to 1.5 times the Common Share dividend in the event that the 10% ownership limitation on the Company's Common Shares has not been either removed or increased to 20% or greater on

or before June 30, 2002, commencing at such date and continuing until the removal of the 10% ownership limitation or its increase to 20% or greater.

The Class A Preference Shares participate in the earnings of the Company on an equivalent basis with the Common Shares and are, therefore, included in the weighted average number of shares outstanding for the purposes of calculating basic earnings per share.

Common Shares

The holders of the Common Shares are entitled to one vote per Common Share on all matters to be voted on by the holders of Common Shares and are entitled to receive such dividends as may be declared by the Board of Directors of the Company.

The holders of Common Shares can elect all directors of the Company, with the exception of the four directors that the holder of the Special Share is entitled to elect.

Special Share

The Special Share is issued to, and may only be held by, the Province. As long as the Province owns the Special Share, neither the Company nor any affiliate can effect any of the fundamental changes described in the Reorganization Act without the consent of the Lieutenant Governor in Council. As well, the Lieutenant Governor in Council must consent to the issuance of any securities by any of the Company's affiliates that were in existence as at January 7, 1997. The Special Share also entitles the Province to elect four directors of the Company.

The Special Share will be redeemed for $1.00 when all indebtedness to the Province of Manitoba has been repaid, which must be no later than December 31, 2000.

Issued	1999		1998	
(in thousands, except number of shares)	Number	Value	Number	Value
Class A Preference Shares				
Opening balance	–	$ –	–	$ –
Issued, net of costs	7,779,556	185,868	–	–
	7,779,556	185,868	–	–
Common Shares				
Opening balance	70,016,000	400,234	70,000,000	400,000
Issued, net of costs	6,223,644	148,612	–	–
Purchased for cancellation	(17,057,700)	(121,398)	–	–
Issued pursuant to stock options	32,000	468	16,000	234
	59,213,944	427,916	70,016,000	400,234
Special Share	1	–	1	–
Total Share Capital		$ 613,784		$ 400,234

During the year, the Company purchased 14,003,200 common shares for total cash consideration of $308.8 million, under the terms of its substantial issuer bid. The excess of the purchase price over the stated capital in the amount of $208 million was charged to retained earnings.

During the year, the Company purchased 3,054,500 common shares for total cash consideration of $55.8 million, under the terms of its normal course issuer bid. The excess of the purchase price over the stated capital in the amount of $35.2 million was charged to retained earnings.

Employee share ownership plan

Effective January 1, 1998, the Company implemented an employee share ownership plan under which eligible employees can purchase Common Shares of the Company, through regular payroll deductions, by contributing between 1% and 6% of salary. For every $4 contributed by an employee, the Company contributes $1. The Company records its contributions as a component of operating expenses. During 1999, the Company contributed $0.6 million (1998 – $0.5 million) to this plan. All Common Shares purchased on behalf of employees under the plan during the year were purchased at fair market value.

Stock options

The Company has a stock option plan under which the Board may grant options to purchase Common Shares to key employees and directors at a price not less than the weighted average of the prices at which the Common Shares traded on all exchanges on which the Common Shares are listed on the five days immediately preceding the date of grant of the option. The options are exercisable during a period not to exceed 10 years. The right to exercise the options accrues over a period of five years of continuous employment at a rate of 20% per year effective on the anniversary of the date the options were granted. The Company has reserved a maximum of 3.5 million Common Shares to meet rights outstanding under the stock option plan.

	1999		1998	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding, beginning of year	807,500	$ 15.20	807,500	$ 14.69
Granted	251,550	19.18	120,000	18.05
Exercised	(32,000)	14.63	(16,000)	14.63
Terminated	(136,500)	14.84	(104,000)	14.63
Outstanding, end of year	890,550	$ 16.40	807,500	$ 15.20
Exercisable	231,600	$ 15.02	137,500	$ 14.70

Year granted	Options Outstanding at Dec. 31, 1999	Exercisable	Average Exercise Price	Expiry Date
1999	**251,550**	**–**	**$ 19.18**	**2009**
1998	120,000	24,000	18.05	2008
1997	519,000	207,600	14.67	2007

9. PENSIONS

The Company's Pension Plan is a contributory, defined benefit best average plan. The Pension Plan provides a pension based on length of service and best average earnings. The Company's policy is to fund the Pension Plan as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits.

The estimated actuarial value of the net assets available for benefits and the accrued pension benefits of the Pension Plan as at December 31 are as follows:

(in thousands)	**1999**	1998
Net assets available (at market-related values)	**$ 901,695**	$ 857,805
Accrued pension benefits	**$ 847,499**	$ 823,874

10. FINANCIAL INSTRUMENTS

With the exception of long-term debt, the historical cost carrying amount of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value. The Company's long-term debt with a cost of $329.8 million (1998 – $360.5 million) had a fair market value of $342.2 million (1998 – $399.7 million) as at December 31, 1999.

During the years ended December 31, 1999 and 1998, the Company has not utilized any derivative financial instruments.

11. ACQUISITIONS

During the year, the Company acquired all of the operating assets of Imaginet Communications Group Inc. (February 1, 1999), International Security and Fire Inc. (January 29, 1999), and MBnet Networking Inc. (October 31, 1999). During 1998, the Company acquired all of the issued and outstanding shares of AAA Alarm Systems Ltd. (May 31, 1998), and escape communications corp. (May 31, 1998). These acquisitions have been accounted for using the purchase method, and the operating results of these businesses are included in the Consolidated Statement of Income from the effective date of acquisition. Details of assets and liabilities acquired are as follows:

(in thousands)	**1999**	1998
Assets	**$ 644**	$ 2,125
Liabilities	**321**	3,418
Net identifiable assets acquired	**323**	(1,293)
Goodwill	**3,121**	11,705
Total cash consideration	**$ 3,444**	$ 10,412

12. SEGMENTED INFORMATION

The Company has two reportable operating segments: MTS Communications Inc. ("MTS Communications") and MTS Mobility Inc. ("MTS Mobility"). MTS Communications provides a full range of local, long distance, data and enhanced telecommunications services. MTS Mobility provides cellular and PCS, paging and group communications wireless services.

The Company's reportable segments are strategic business units organized around different products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 1). The Company evaluates performance based on EBITDA (earnings before interest, taxes, depreciation and amortization). The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, namely, at prices that approximate current market prices.

The following table is presented to provide information about segment EBITDA and segment assets:

	MTS Communications		MTS Mobility		All other Segments		Totals	
(in millions)	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Operating revenue – external	**$ 585**	$ 578	**$ 92**	$ 82	**$ 45**	$ 37	**$ 722**	$ 697
Operating revenue – internal	**22**	16	**3**	2	**24**	24	**49**	42
EBITDA	**288**	276	**45**	40	**8**	13	**341**	329
Depreciation and amortization	**157**	156	**29**	25	**4**	4	**190**	185
Assets	**1,195**	1,194	**157**	125	**221**	190	**1,573**	1,509
Capital expenditures, net	**92**	118	**31**	42	**47**	6	**170**	166

Revenues from segments below the quantitative thresholds are attributable to three operating segments of the Company. Those segments are MTS Advanced Inc., which is the Company's online multimedia and directory publishing subsidiary, Intrigna, which is responsible for telecom service to customers in Alberta and British Columbia, and Manitoba Telecom Services International Inc., which is responsible for providing telecom-related services to other telecommunications companies outside of Canada.

Reconciliations of total EBITDA and assets are as follows:

EBITDA
(in millions)

	1999	1998
Total EBITDA	$ 341	$ 329
Depreciation and amortization	(190)	(185)
Debt charges	(30)	(34)
Income taxes	(27)	(15)
Consolidated net income	$ 94	$ 95

Assets
(in millions)

	1999	1998
Total assets for operating segments	$ 1,573	$ 1,509
Elimination of intersegment receivables	(252)	(210)
Consolidated total assets	$ 1,321	$ 1,299

13. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company rents buildings and construction and other equipment under operating leases. Future minimum lease commitments are as follows:

Year	(in thousands)
2000	$ 8,407
2001	7,109
2002	6,161
2003	6,000
2004	5,796

Contractual obligations

The Company has entered into various long-term contractual commitments for services required in the normal course of operations. The aggregate annual contractual commitments for these services in each of the five following fiscal years are as follows:

Year	(in thousands)
2000	$ 24,661
2001	13,851
2002	14,051
2003	14,141
2004	10,600

Uncertainty due to the year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.

14. RELATED PARTY TRANSACTIONS

The Company has transactions with related parties in the normal course of operations at prevailing market prices and under normal trade terms. Related parties include Bell Canada ("Bell"), its parent, subsidiaries and significantly influenced affiliates. The Company is subject to significant influence by Bell due to Bell's ownership of Class A Preference Shares and Common Shares and Bell's representation on the Board of Directors.

During the year, the Company made purchases from related parties totalling $85.7 million. As at December 31, 1999, amounts due to related parties totalled $38.5 million. The Company pays amounts to and receives amounts from Bell for transiting and terminating long distance minute traffic. These amounts are in the normal course of operations and are at prevailing market prices.

15. COMPARATIVE FIGURES

The prior period figures have been reclassified where necessary to conform to 1999 presentation. Amounts paid to other carriers for transiting and terminating long distance minute traffic, previously netted against long distance revenues, are now included as expenses. Also, contribution payments to the CRTC's Central Fund, previously netted against the corresponding local service revenues, are now included as expenses.

(Not subject to auditors' report)

	1999	1998	1997	1996	1995
Operations					
(in $ thousands, except earnings per share and ratios)					
Total operating revenues [1]	**722,084**	696,932	683,953	589,325	540,127
Total operating expenses [1]	**587,370**	567,922	568,971	484,582	449,339
Operating income	**134,714**	129,010	114,982	104,743	90,788
Other income	**12,326**	15,319	9,056	12,578	14,668
Debt charges	**29,947**	34,055	36,706	84,921	90,339
Income before extraordinary item	**93,931**	95,374	84,664	32,400	15,117
Extraordinary item	**–**	–	28,250	–	–
Cash flow from operating activities	**315,800**	292,017	251,806	186,928	153,404
EBITDA	**340,990**	329,283	305,570	296,044	259,207
RACE (%) [3]	**12.5**	13.9	12.7	13.0	6.7
Earnings per share *(in $)*	**1.34**	1.36	0.81	N/A	N/A
Baseline Operations					
Baseline EBITDA *(in $ thousands)* [2]	**347,336**	325,142	305,570	296,044	259,207
Baseline EBITDA margin (%) [2]	**48.2**	46.7	44.7	50.2	48.0
Baseline RACE (%) [2][3]	**13.3**	13.3	18.2	13.0	6.7
Baseline earnings per share *(in $)* [2]	**1.43**	1.30	1.21	N/A	N/A
Balance Sheet					
(in $ thousands)					
Property, plant and equipment	**2,432,575**	2,295,617	2,177,530	2,186,169	2,138,808
Accumulated depreciation	**1,409,960**	1,264,743	1,141,254	1,121,896	1,036,797
Investments and sinking funds	**17,591**	14,634	11,711	395,808	369,164
Long-term debt	**305,749**	287,836	305,306	673,685	683,532
Shareholders' equity	**727,124**	710,819	662,814	265,140	232,740
Other Statistics					
Network access lines	**697,828**	692,244	679,303	666,910	658,017
Cellular subscribers	**143,693**	123,013	104,826	86,256	62,893
Long distance minutes *(in thousands)*	**1,061,457**	821,576	755,046	739,135	727,919
Internet customers	**64,901**	46,131	20,500	10,100	2,200
Salaries and wages *(in $ thousands)*	**173,070**	173,794	176,837	174,468	189,024
Number of employees [4]	**3,273**	3,378	3,614	3,688	3,956
Long-term debt to total invested capital (%)	**31.3**	34.1	36.8	75.7	78.4
Construction program expenditures *(in $ thousands)*	**169,359**	166,416	134,630	135,199	155,931

(1) *Figures for the years 1998 and 1997 have been restated to conform with 1999 presentation, as described in Note 15 to the Consolidated Financial Statements.*

(2) *Baseline calculations exclude the impact of Intrigna Communications Inc. in 1999 and the impact of the gain on sale of shares of Alouette Telecommunications Inc. in 1998.*

(3) *Return on average common equity.*

(4) *Including Intrigna, total number of employees is 3,411.*

MANITOBA TELECOM SERVICES INC.

Subsidiary Companies
MTS Communications Inc.
MTS Advanced Inc.
Bell Intrigna Inc.
AAA Alarm Systems Ltd.

Corporate Headquarters
P.O. Box 6666
333 Main Street
Winnipeg, Manitoba R3C 3V6
http://www.mts.mb.ca

Investor Relations
(for additional financial information)
P.O. Box 6666
333 Main Street, Room MP20B
Winnipeg, Manitoba R3C 3V6
Telephone: (888) 544-5554

Corporate Communications
(for media and general inquiries)
P.O. Box 6666
333 Main Street, Room MP18C
Winnipeg, Manitoba R3C 3V6
Telephone: (800) 565-1936 or (204) 941-8244

SHARE TRANSFER AGENT AND REGISTRAR

Montreal Trust Company of Canada
200 Portage Avenue
Mezzanine Level
Winnipeg, Manitoba R3C 3X2
Telephone: (888) 267-6555 or (204) 985-3048

MARKET TRADING INFORMATION

The Company's Common Shares are listed on The Toronto Stock Exchange. The trading symbol is MBT. The average daily trading volume in 1999 was 159,600 shares (207,600 shares in 1998).

DIVIDENDS*

Record Date	Payment Date
March 15, 2000	April 14, 2000
June 15, 2000	July 14, 2000
September 15, 2000	October 13, 2000
December 15, 2000	January 15, 2001

**Subject to approval by Board of Directors.*

Since becoming a publicly traded share capital corporation on January 7, 1997, MTS has paid quarterly dividends of $0.17 per share. The dividend payable on January 14, 2000 was increased to $0.19 per share.

ANNUAL AND SPECIAL MEETING

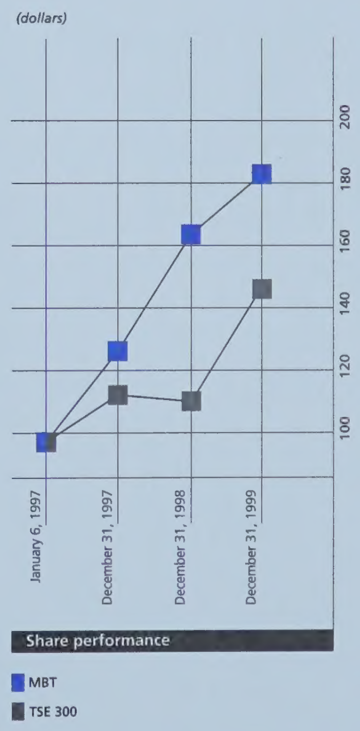
An Annual and Special Meeting of the shareholders of MTS will be held at The Winnipeg Art Gallery, Muriel Richardson Auditorium, in Winnipeg, Manitoba, on June 23, 2000, at 11:00 a.m.

INVESTMENT INFORMATION ONLINE

MTS publishes relevant investor information, including quarterly reports, dividend and special notices, on its Web site at http://www.mts.mb.ca.

PERFORMANCE GRAPH

The following graph compares the change over the last three years in the cumulative total return on the Common Shares of the Corporation with the cumulative total return of the TSE 300 Composite Index, assuming a $100 investment at the initial offering price of $13.00 and re-investment of dividends.



THOMAS E. STEFANSON
Chairman,
Manitoba Telecom Services Inc.
and MTS Communications Inc.
Mr. Stefanson has been Chairman of MTS since 1989. He is a member of the Governance Committee.

WILLIAM C. FRASER
President & Chief Executive Officer,
Manitoba Telecom Services Inc.
and MTS Communications Inc.
Chairman,
Bell Intrigna Inc.
Mr. Fraser has been a member of the MTS Board of Directors since 1997.

JOCELYNE M. CÔTÉ-O'HARA
Principal,
C²O & Company
Ms. Côté-O'Hara has been a member of the MTS Board of Directors since 1997. She is a member of the Audit Committee and the Human Resources and Compensation Committee.

N. ASHLEIGH EVERETT
Chairman,
Royal Canadian Properties Limited
President,
Royal Canadian Securities Limited
Ms. Everett has been a member of the MTS Board of Directors since 1997. She is a member of the Audit Committee.

JOHN F. FRASER, O.C.
Chairman,
Air Canada
Mr. Fraser has been a member of the MTS Board of Directors since 1997. He is Chairman of the Governance Committee and a member of the Audit Committee.

TERENCE J. JARMAN
Vice-Chair, Corporate
Bell Canada
Mr. Jarman has been a member of the MTS Board of Directors since 1999. He is a member of the Governance Committee.

RAYMOND L. McFEETORS
President & Chief Executive Officer,
The Great-West Life Assurance Company
and London Life Insurance Company
Mr. McFeetors has been a member of the MTS Board of Directors since 1997. He is a member of the Governance Committee.

C. ARNOLD L. MORBERG
President & Chief Executive Officer,
Calm Air International Ltd.
Mr. Morberg has been a member of the MTS Board of Directors since 1997. He is a member of the Human Resources and Compensation Committee.

DONALD H. PENNY, F.C.A., L.L.D.
Chairman,
Meyers Norris Penny
Mr. Penny has been a member of the MTS Board of Directors since 1997. He is Chairman of the Audit Committee and a member of the Governance Committee.

GEDAS A. SAKUS
Corporate Director
Mr. Sakus has been a member of the MTS Board of Directors since 1999. He is a member of the Human Resources and Compensation Committee.

ARTHUR R. SAWCHUK
Chairman,
The Manufacturers Life Insurance Company
Mr. Sawchuk has been a member of the MTS Board of Directors since 1997. He is a member of the Governance Committee and the Human Resources and Compensation Committee.

D. SAMUEL SCHELLENBERG
General Manager,
Pembina Valley Water Cooperative Inc.
Mr. Schellenberg has been a member of the MTS Board of Directors since 1989. He is Chairman of the Human Resources and Compensation Committee and a member of the Audit Committee.

C. WESLEY M. SCOTT
Chief Corporate Officer,
BCE Inc.
Mr. Scott has been a member of the MTS Board of Directors since 1999. He is a member of the Audit Committee and the Human Resources and Compensation Committee.

MTS MANAGEMENT COMMITTEE

PETER J. FALK, Q.C.
Executive Vice-President
Business Development;
Corporate Secretary &
General Counsel,
Manitoba Telecom Services Inc.

JEFFREY C. ROHNE
President &
Chief Operating Officer,
MTS Advanced Inc.

DAVID C. ROURKE
Executive Vice-President
Operations,
MTS Communications Inc.

WILLIAM C. FRASER
President &
Chief Executive Officer,
Manitoba Telecom Services Inc.
and MTS Communications Inc.

ROGER H. BALLANCE
Executive Vice-President
Sales and Marketing,
MTS Communications Inc.

BRYAN J. LUCE
Vice-President
Human Resources,
Manitoba Telecom Services Inc.

CHERYL BARKER
Executive Vice-President
Finance & Chief Financial Officer,
Manitoba Telecom Services Inc.
Vice-President Finance,
MTS Communications Inc.

OFFICERS OF MANITOBA TELECOM SERVICES INC. AND ITS PRINCIPAL SUBSIDIARIES

THOMAS E. STEFANSON
Chairman,
Manitoba Telecom Services Inc.
and MTS Communications Inc.
Winnipeg, Manitoba

WILLIAM C. FRASER
President & Chief Executive Officer,
Manitoba Telecom Services Inc.
and MTS Communications Inc.
Chairman,
Bell Intrigna Inc.
Winnipeg, Manitoba

CHERYL BARKER
Executive Vice-President
Finance & Chief Financial Officer,
Manitoba Telecom Services Inc.
Vice-President Finance,
MTS Communications Inc.
Winnipeg, Manitoba

PETER J. FALK, Q.C.
Executive Vice-President
Business Development;
Corporate Secretary & General Counsel,
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

BRYAN J. LUCE
Vice-President Human Resources,
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

WAYNE S. DEMKEY
Corporate Controller,
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

PATRICIA A. SOLMAN
Treasurer,
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

JEFFREY C. ROHNE
President & Chief Operating Officer,
MTS Advanced Inc.
Winnipeg, Manitoba

DAVID C. ROURKE
Executive Vice-President Operations,
MTS Communications Inc.
Winnipeg, Manitoba

ROGER H. BALLANCE
Executive Vice-President
Sales and Marketing,
MTS Communications Inc.
Winnipeg, Manitoba

MURRAY L. KORTH
President & Chief Executive Officer,
Bell Intrigna Inc.
Calgary, Alberta

MTS

MANITOBA TELECOM SERVICES INC.
P.O. Box 6666
333 Main St., 4th Floor
Winnipeg, Manitoba, Canada R3C 3V6